

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT

CORUNNA, MICHIGAN

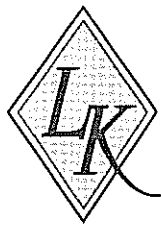
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 8, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Shiawassee Regional Educational Service District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shiawassee Regional Educational Service District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee Regional Educational Service District as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 8, 2006 on our consideration of the Shiawassee Regional Educational Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - IX, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shiawassee Regional Educational Service District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Shiawassee Regional Education Service District's (SRES) administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Special Education is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Shiawassee Regional Educational Service District net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction and support services. Property taxes, unrestricted State aid, and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$11,692,143	\$11,318,017
Non-Current Assets	<u>3,893,060</u>	<u>4,622,611</u>
<u>TOTAL ASSETS</u>	<u>\$15,585,203</u>	<u>\$15,940,628</u>
<u>LIABILITIES</u>		
Current Liabilities	\$2,008,574	\$2,182,591
Long-Term Liabilities	<u>1,018,674</u>	<u>1,064,498</u>
Total Liabilities	\$3,027,248	\$3,247,089
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related debt	4,192,656	4,915,575
Unrestricted	<u>8,365,299</u>	<u>7,777,964</u>
Total Net Assets	<u>\$12,557,955</u>	<u>\$12,693,539</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$15,585,203</u>	<u>\$15,940,628</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$400,200	\$382,234
Property Taxes Levied for Special Education Services	6,580,465	6,284,916
State of Michigan Unrestricted Foundation Aid	2,228,148	3,534,413
Other General Revenues	<u>394,112</u>	<u>640,899</u>
Total General Revenues	\$9,602,925	\$10,842,462
<u>Operating Grants:</u>		
Federal	3,807,788	4,042,274
State of Michigan	4,012,063	1,729,183
Other Operating Grants	<u>836,901</u>	<u>738,474</u>
Total Operating Grants	\$8,656,752	\$6,509,931
<u>Charges for Services:</u>		
Other Charges for Services	<u>1,583,014</u>	<u>1,454,540</u>
Total Revenues	\$19,842,691	\$18,806,933
<u>EXPENSES</u>		
Instruction & Instructional Support	4,636,239	4,297,832
Support Services	15,222,121	14,981,698
Community Services	100	495
Other Capital Outlay	49,047	63,943
Interest - Long-Term Obligations	34,747	0
Depreciation	<u>36,021</u>	<u>36,021</u>
Total Expenses	\$19,978,275	\$19,379,989
<u>(DECREASE) IN NET ASSETS</u>	(\$135,584)	(\$573,056)
<u>BEGINNING NET ASSETS</u>	<u>12,693,539</u>	<u>13,266,595</u>
<u>ENDING NET ASSETS</u>	<u>\$12,557,955</u>	<u>\$12,693,539</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets decreased by \$135,584 to a total of \$12,557,955. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$722,919 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's Unrestricted Net Assets increased by \$587,335 during the year. The restricted capital projects fund may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$135,584. The total revenues increased by \$1,035,758 or 5% over last years amounts. The major changes were increase in property tax revenue, increase in state aid and Medicaid. Expenditures increased by \$598,286 or 3% over last year. Major changes were the items originally booked to the prior years construction in progress account that were greater than the actual amount capitalized.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$62,373 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year increased by \$90,401 over the prior year, primarily from increases in transfers from other funds. Expenditures decreased by \$44,494 over the prior year, due to unexpended funds in general education programs, and services.

1. State of Michigan Aid (Section 81)

The State of Michigan aid provided under Section 81 of the State Aid Act provides the majority of state aid to the District's General Fund. Funding to the District under Section 81 is provided to comply with the requirements of the State Aid Act and to provide technical assistance to local districts as authorized by the intermediate school board. Funding under Section 81 was \$899,829 for the fiscal year an increase of \$145,057 over the previous year.

2. Property Taxes Levied For General Operations (General Fund Homestead and Non-Homestead Taxes)

The District levies .2274 mills of property taxes for operations (General Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2005-2006 fiscal year was \$403,996. An increase of \$21,762 from the prior year.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

Special Education Fund

Unreserved fund balance for the special education fund increased by \$648,372 during the year with the increase coming primarily from a increase in cash. Revenues for the year increased by \$1,302,693 primarily from increases in property taxes, Medicaid and state aid. Expenditures and other financing uses decreased by \$253,721, primarily due to reducing the amount of funds expended for capital outlay, and personnel. The major source of special education revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Aid (Section 51)

The State of Michigan aid provided under Section 51 of the State Aid Act provides the majority of state aid to the District's Special Education Fund. Funding to the District under Section 51 is provided to reimburse the District for unreimbursed costs of special education programs, services and special education personnel. Funding under Section 51 was \$1,954,974 for the fiscal year an increase of \$959,972 from the previous year due to a reduction in Federal IDEA dollars that support special education programs.

2. Property Taxes Levied For General Operations (Special Education Fund Non-Homestead Taxes)

The District levies .3709 mills of property taxes for operations (Special Education Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$6,590,073. An increase of \$305,157 from the prior year.

BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final Budget %	Variance Actual & Final Budget %
Revenue	\$3,428,627	\$3,666,251	\$3,691,041	6.93	(0.68)
Expenditures	3,808,116	3,931,155	3,753,414	3.23	4.52
<u>TOTAL</u>	<u>(\$379,489)</u>	<u>(\$264,904)</u>	<u>(\$62,373)</u>		

Original vs. Final Budgets

Revenues

Local revenue increased in the areas of the amount of interest received for funds on deposit as well as additional funds received for the Cook Scholarship Program. In June when the original budget is adopted the amount of State Aid was not known and an estimate was used. Additional funds were received from the State of Michigan than originally projected. Federal revenue increased only slightly.

Expenditures

With the increase in fuel and electricity the operation and maintenance budget was more than originally budgeted. Network Services budget increased due to the addition of the cost of the internet added after the original budget was adopted.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

BUDGETARY HIGHLIGHTS (Continued):

Actual Results vs. Final Budgets

Revenues

Local revenue recognized more than what was budgeted in a variety of different categories by approximately \$12,400. However, State and Federal funds that were received fell short of their respective budgets by approximately \$6,800 and \$6,300 respectively. Incoming transfers did not recognize the total amount budgeted for internet fees.

Expenditures

In an effort to reduce the projected fund balance deficit there were unexpended funds in outgoing transfers, professional development, scholarships, fringe benefits, travel expenses, contracted services, and supplies.

SPECIAL EDUCATION FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$15,461,551	\$16,286,929	\$16,449,705	5.34	1.00
Expenditures	15,621,018	16,458,660	15,801,333	5.36	3.99
<u>TOTAL</u>	<u>(\$159,467)</u>	<u>(\$171,731)</u>	<u>\$648,372</u>		

Revenues

Local revenue recognized additional funds through property tax levy, interest on investments. Additional State funds for special education as well as incoming transfers from local school districts for programs provided by Shiawassee RESD. However, there was a small reduction in Federal funds in the IDEA carryover.

Expenditures

Projected salary and fringe benefits were higher than originally anticipated. There was an increase in the cost of utilities and fuel costs as well as outgoing transfers to local school districts as reimbursement for classrooms and aides.

Actual Results vs. Final Budgets

Revenues

The July and August State aid payments were received at an amount higher than what was anticipated in Section 56. Additionally, there were Medicaid funds that were received at year end more than anticipated.

Expenditures

There were unexpended funds in all categories in an effort to reduce the projected fund balance deficit.

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Shiawassee Regional Educational Service District amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
Durant Bonds	\$1,017,392	\$0	\$77,083	\$940,309
Installment Contracts	76,494	104,673	97,401	83,766
Vacation & Sick Days Payable	100,429	0	1,336	99,093
<u>Total Long-Term Obligations</u>	<u>\$1,194,315</u>	<u>\$104,673</u>	<u>\$175,820</u>	<u>\$1,123,168</u>

B. Capital Assets

The district's net investment in capital assets increased by \$1,783,394 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-05
Capital Assets	\$4,550,399	\$2,117,095	\$0	\$6,667,494
Less: Accumulated Depreciation	(2,440,733)	(333,701)	0	(2,774,434)
<u>Net Investment Capital Outlay</u>	<u>\$2,109,666</u>	<u>\$1,783,394</u>	<u>\$0</u>	<u>\$3,893,060</u>

Significant additions were the addition of the transportation building, purchase of 2 buses and technology equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,085 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06. It is forecast, based on actuarial assumptions that these types of increases will occur until 2012.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

* The Shiawassee Regional Educational Service District's 2006-2007 adopted budget is as follows:

	<u>General</u>	<u>Special Ed</u>	<u>Total</u>
<u>REVENUE</u>	\$3,596,452	\$16,515,138	\$20,111,590
<u>EXPENDITURES</u>	<u>3,989,265</u>	<u>16,969,937</u>	<u>20,959,202</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$392,813)</u>	<u>(\$454,799)</u>	<u>(\$847,612)</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Shiawassee Regional Educational Service District.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$9,404,751
Investments	595,671
Notes Receivable	80,428
Due from Other Governmental Units	1,502,823
Prepaid Expenses	108,470
Total Current Assets	<u>\$11,692,143</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	6,667,494
Less: Accumulated Depreciation	<u>(2,774,434)</u>
Total Noncurrent Assets	<u>\$3,893,060</u>
<u>TOTAL ASSETS</u>	\$15,585,203
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Notes Payable	86,373
Accounts Payable	1,029
Salaries Payable	745,315
Accrued Expenses	149,578
Deferred Revenue	921,785
Current Portion of Long-Term Obligations	104,494
Total Current Liabilities	<u>\$2,008,574</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>1,018,674</u>
<u>TOTAL LIABILITIES</u>	\$3,027,248
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	4,192,656
Unrestricted	<u>8,365,299</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$12,557,955</u></u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$4,636,239	\$0	\$3,229,310	(\$1,406,929)
Support Services	15,222,121	1,583,014	5,427,442	(8,211,665)
Community Services	100	0	0	(100)
Other Capital Outlay	49,047	0	0	(49,047)
Interest - Long-Term Obligation	34,747	0	0	(34,747)
Depreciation - Unallocated	36,021	0	0	(36,021)
<u>TOTALS</u>	<u>\$19,978,275</u>	<u>\$1,583,014</u>	<u>\$8,656,752</u>	<u>(\$9,738,509)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				6,980,665
State Aid				2,228,148
Investment Earnings				271,520
Miscellaneous				122,592
Total General Revenues and Transfers				<u>\$9,602,925</u>
Change in Net Assets				(\$135,584)
Net Assets - Beginning				<u>12,693,539</u>
<u>Net Assets - Ending</u>				<u>\$12,557,955</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	Special Education Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$4,089,087	\$4,015,061	\$1,300,603	\$9,404,751
Investments	25,065	547,538	23,068	595,671
Notes Receivable	80,428	0	0	80,428
Due From Other Governmental Units	549,145	953,678	0	1,502,823
Due From Other Funds	251,093	0	0	251,093
Prepaid Expenses	58,068	50,402	0	108,470
<u>TOTAL ASSETS</u>	<u>\$5,052,886</u>	<u>\$5,566,679</u>	<u>\$1,323,671</u>	<u>\$11,943,236</u>
<u>LIABILITIES</u>				
Notes Payable	\$86,373	\$0	\$0	\$86,373
Accounts Payable	0	1,029	0	1,029
Due to Other Funds	0	251,093	0	251,093
Salaries Payable	745,315	0	0	745,315
Accrued Expenses	0	149,578	0	149,578
Deferred Revenue	921,785	0	0	921,785
Total Liabilities	\$1,753,473	\$401,700	\$0	\$2,155,173
<u>FUND BALANCES</u>				
Reserved For:				
Capital Projects	0	0	1,323,671	1,323,671
Designated for Subsequent Years Expenditures	1,488,158	2,090,788	0	3,578,946
Unreserved:				
Undesignated, Reported In:				
General Fund	1,811,255	0	0	1,811,255
Special Education Fund	0	3,074,191	0	3,074,191
Total Fund Balances	\$3,299,413	\$5,164,979	\$1,323,671	\$9,788,063
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$5,052,886</u>	<u>\$5,566,679</u>	<u>\$1,323,671</u>	<u>\$11,943,236</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:	\$9,788,063
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$6,667,494 and the accumulated depreciation is \$2,774,434	3,893,060
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Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as
liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$940,309	
Installment Contracts	83,766	
Compensated Absences Payable	99,093	
Total Long-Term Liabilities	<u> </u>	<u>(1,123,168)</u>

<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$12,557,955</u>
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SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Special Education Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$676,476	\$7,570,986	\$53,254	\$8,300,716
State Sources	1,010,393	4,958,739	271,079	6,240,211
Federal Sources	481,166	3,326,622	0	3,807,788
Total Revenues	\$2,168,035	\$15,856,347	\$324,333	\$18,348,715
<u>EXPENDITURES</u>				
Current:				
Instruction	782,278	3,853,961	0	4,636,239
Student Services	324,553	6,003,348	0	6,327,901
Instructional Support	1,208,623	1,132,352	0	2,340,975
General Administration	335,225	0	0	335,225
School Administration	0	281,208	0	281,208
Business Administration	258,215	66,658	0	324,873
Operation & Maintenance of Plant	196,194	285,249	0	481,443
Transportation	0	1,398,637	0	1,398,637
Support Services - Other	648,326	145,521	0	793,847
Community Services	0	100	0	100
Capital Outlay	0	0	275,683	275,683
Debt Retirement	0	0	111,830	111,830
Total Expenditures	\$3,753,414	\$13,167,034	\$387,513	\$17,307,961
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(\$1,585,379)	\$2,689,313	(\$63,180)	\$1,040,754
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	622,388	(622,388)	0	0
Other Transfers	900,618	(1,418,553)	0	(517,935)
Total Other Financing Sources (Uses)	\$1,523,006	(\$2,040,941)	\$0	(\$517,935)
Net Change in Fund Balance	(\$62,373)	\$648,372	(\$63,180)	\$522,819
<u>FUND BALANCE - BEGINNING</u>	3,361,786	4,516,607	1,386,851	9,265,244
<u>FUND BALANCE - ENDING</u>	\$3,299,413	\$5,164,979	\$1,323,671	\$9,788,063

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	\$522,819
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,783,394
Proceeds from Installment Contracts	(104,673)
Construction in Progress	(2,512,945)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	174,485
Decrease in accrued compensated absences	<u>1,336</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$135,584)</u></u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

	<u>Trust & Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$9,041</u>
<u>TOTAL ASSETS</u>	<u>\$9,041</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$9,041</u>
<u>TOTAL LIABILITIES</u>	<u>\$9,041</u>

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$622,820	\$664,020	\$676,476	\$12,456
State Sources	814,603	1,022,261	1,010,393	(11,868)
Federal Sources	413,973	446,979	481,166	34,187
Total Revenues	<u>\$1,851,396</u>	<u>\$2,133,260</u>	<u>\$2,168,035</u>	<u>\$34,775</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	794,772	824,462	782,278	42,184
Student Services	379,663	418,232	324,553	93,679
Instructional Support	1,208,512	1,246,689	1,208,623	38,066
General Administration	358,162	359,378	335,225	24,153
Business Administration	269,556	263,187	258,215	4,972
Operation & Maintenance of Plant	195,606	204,617	196,194	8,423
Support Services - Other	601,845	614,590	648,326	(33,736)
Total Expenditures	<u>\$3,808,116</u>	<u>\$3,931,155</u>	<u>\$3,753,414</u>	<u>\$177,741</u>
Excess of Revenues Over Expenditures	<u>(\$1,956,720)</u>	<u>(\$1,797,895)</u>	<u>(\$1,585,379)</u>	<u>\$212,516</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>1,577,231</u>	<u>1,532,991</u>	<u>1,523,006</u>	<u>(9,985)</u>
Total Other Financing Sources (Uses)	<u>\$1,577,231</u>	<u>\$1,532,991</u>	<u>\$1,523,006</u>	<u>(\$9,985)</u>
Net Change in Fund Balance	<u>(\$379,489)</u>	<u>(\$264,904)</u>	<u>(\$62,373)</u>	<u>\$202,531</u>
<u>FUND BALANCE - BEGINNING</u>			<u>3,361,786</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$3,299,413</u>	

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$6,401,400	\$6,739,255	\$7,570,986	\$831,731
State Sources	5,186,600	5,704,641	4,958,739	(745,902)
Federal Sources	3,313,551	3,230,033	3,326,622	96,589
Total Revenues	<u>\$14,901,551</u>	<u>\$15,673,929</u>	<u>\$15,856,347</u>	<u>\$182,418</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	3,572,917	3,980,946	3,853,961	126,985
Student Services	6,088,078	6,335,443	6,003,348	332,095
Instructional Support	1,203,808	1,169,560	1,132,352	37,208
School Administration	350,363	296,250	281,208	15,042
Business Administration	70,000	84,000	66,658	17,342
Operation & Maintenance of Plant	293,389	296,360	285,249	11,111
Transportation	1,481,463	1,449,464	1,398,637	50,827
Support Services - Other	150,000	148,402	145,521	2,881
Community Services	1,000	1,000	100	900
Total Expenditures	<u>\$13,211,018</u>	<u>\$13,761,425</u>	<u>\$13,167,034</u>	<u>\$594,391</u>
Excess of Revenues Over Expenditures	<u>\$1,690,533</u>	<u>\$1,912,504</u>	<u>\$2,689,313</u>	<u>\$776,809</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(1,850,000)</u>	<u>(2,084,235)</u>	<u>(2,040,941)</u>	<u>43,294</u>
Total Other Financing Sources (Uses)	<u>(\$1,850,000)</u>	<u>(\$2,084,235)</u>	<u>(\$2,040,941)</u>	<u>\$43,294</u>
Net Change in Fund Balance	<u>(\$159,467)</u>	<u>(\$171,731)</u>	<u>\$648,372</u>	<u>\$820,103</u>
<u>FUND BALANCE - BEGINNING</u>			<u>4,516,607</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$5,164,979</u>	

See accompanying notes to the basic financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Shiawassee Regional Educational Service District conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Education Fund – The special education fund is used to account for financial resources to be used specifically for providing special education services to students within the School District.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment Pool - MIMAX	<u>\$595,671</u>	<u>0.0027</u>	AAAm	<u>100.00%</u>

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$8,976,546 of the District's bank balance of \$9,276,546 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$9,041	\$ 9,413,792
Investments	<u>595,671</u>
<u>TOTAL</u>	<u>\$ 10,009,463</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 9,041
Cash – District Wide	9,404,751
Investments – District Wide	<u>595,671</u>
<u>TOTAL</u>	<u>\$ 10,009,463</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,058,444
Federal Grants	437,919
Other	<u>6,460</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,502,823</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had estimated claims of \$3,445 in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$1,781,602	\$1,753,021	\$0	\$3,534,623
Land Improvements	33,060	0	0	33,060
Equipment and Furniture	1,217,459	226,636	0	1,444,095
Vehicles	1,518,278	137,438	0	1,655,716
Totals at Historical Cost	\$4,550,399	\$2,117,095	\$0	\$6,667,494
Less: Accumulated Depreciation				
Buildings and Improvements	(687,132)	(36,021)	0	(723,153)
Land Improvements	(16,485)	(253)	0	(16,738)
Equipment and Furniture	(678,836)	(161,181)	0	(840,017)
Vehicles	(1,058,280)	(136,246)	0	(1,194,526)
Total Accumulated Depreciation	(\$2,440,733)	(\$333,701)	\$0	(\$2,774,434)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,109,666</u>	<u>\$1,783,394</u>	<u>\$0</u>	<u>\$3,893,060</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 297,680
Unallocated	36,021
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 333,701</u>

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

9) CAPITAL ASSETS (Continued)

Investment in capital assets – net of related debt consists of the following:

Capital Assets	\$ 6,667,494
Less: Accumulated Depreciation	(2,774,434)
Less: Long-Term Liabilities	(1,123,168)
Compensated Absences	99,093
Capital Projects Fund Equity	<u>1,323,671</u>
 <u>TOTAL</u>	 <u>\$ 4,192,656</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$95,566 and the School District received a dividend refund of \$28,117.

11) GENERAL LONG-TERM DEBT

A) Durant Resolution Package Bonds

Shiawassee Regional Educational Service District issued Durant Resolution Bonds on November 24, 1998 in the amount of \$2,106,774 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$940,309.

B) Installment Contracts

Shiawassee Regional Educational Service District is indebted to Dell Marketing, L.P. in the amount of \$142,557 for computer equipment. The notes require annual principal payments per annum of \$47,519 and interest at 2.48% per annum. The contract matures October, 2006. The balance as of June 30, 2006 was \$23,759.

Shiawassee Regional Educational Service District is indebted to Gateway Business in the amount of \$15,645 for computer equipment. The notes require annual principal payments per annum of \$5,215 and interest at 2.48% per annum. The contract matured in March, 2006.

Shiawassee Regional Educational Service District is indebted to Key Government Finance, Inc. in the amount of \$104,673 for computer equipment. The notes require quarterly principal payments per annum of \$11,167 and interest at 1.99% per annum. The contract matures in August, 2007. The balance as of June 30, 2006 was \$44,667.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT (Continued)

C) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	INSTALLMENT CONTRACTS	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2007	\$68,426	\$80,734	\$32,687	\$181,847
June 30, 2008	15,340	84,598	27,528	127,466
June 30, 2009	0	88,627	23,205	111,832
June 30, 2010	0	92,843	18,985	111,828
June 30, 2011	0	384,875	142,852	527,727
June 30, 2011-2013	0	208,632	15,016	223,648
<u>TOTAL</u>	<u>\$83,766</u>	<u>\$940,309</u>	<u>\$260,273</u>	<u>\$1,284,348</u>

The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$36,357.

D) Changes in General Long-Term Debt

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Durant Bonds	\$1,017,392	\$0	\$77,083	\$940,309	\$80,734
Installment Contracts	76,494	104,673	97,401	83,766	68,426
Vacation & Sick Days Payable	100,429	0	1,336	99,093	0
<u>Total Governmental Activities</u>	<u>\$1,194,315</u>	<u>\$104,673</u>	<u>\$175,820</u>	<u>\$1,123,168</u>	<u>\$149,160</u>

12) INTERFUND ACTIVITY

Interfund balances at June 30, 2006 consisted of the following:

	DUE FROM
	SPECIAL EDUCATION FUND
General Fund	<u>\$251,093</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS TO	TRANSFERS FROM
	SPECIAL EDUCATION FUND
General Fund	\$622,388

The transfers are reimbursements to the general fund from the special education fund for overhead costs that are calculated annually and approved by the board.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPSERS. That report may be obtained by writing to the MPSERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$1,443,251, \$1,246,361 and \$1,066,618, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

SHIAWASSEE REGIONAL EDUCATIONAL SERVICE DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

15) RISK MANAGEMENT (Continued)

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which are the Special Education Cluster Grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

OTHER SUPPLEMENTAL
INFORMATION

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	Capital Projects Fund	Durant Debt Service Fund	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,300,603	\$0	\$1,300,603
Investments	23,068	0	23,068
<u>TOTAL ASSETS</u>	<u>\$1,323,671</u>	<u>\$0</u>	<u>\$1,323,671</u>
<u>FUND EQUITY</u>			
Fund Balance - Reserved			
Capital Projects	<u>\$1,323,671</u>	<u>\$0</u>	<u>\$1,323,671</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	Capital Projects Fund	Durant Debt Service Fund	Total Other Governmental Funds
<u>REVENUES</u>			
Local Sources	\$53,254	\$0	\$53,254
State Sources	159,249	111,830	271,079
Total Revenues	<u>\$212,503</u>	<u>\$111,830</u>	<u>\$324,333</u>
<u>EXPENDITURES</u>			
Capital Outlay	275,683	0	275,683
Debt Service			
Principal	0	77,083	77,083
Interest	0	34,747	34,747
Total Expenditures	<u>\$275,683</u>	<u>\$111,830</u>	<u>\$387,513</u>
Net Change in Fund Balance	<u>(\$63,180)</u>	<u>\$0</u>	<u>(\$63,180)</u>
<u>NET ASSETS - BEGINNING</u>	<u>1,386,851</u>	<u>0</u>	<u>1,386,851</u>
<u>NET ASSETS - ENDING</u>	<u>\$1,323,671</u>	<u>\$0</u>	<u>\$1,323,671</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
CAPITAL PROJECTS FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2006

	Building & Site	Durant I	Durant II	TOTAL
<u>ASSETS</u>				
Cash and Cash Equivalents	\$579,485	\$318,176	\$402,942	\$1,300,603
Investments	23,068	0	0	23,068
<u>TOTAL ASSETS</u>	<u>\$602,553</u>	<u>\$318,176</u>	<u>\$402,942</u>	<u>\$1,323,671</u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved				
Capital Projects	<u>\$602,553</u>	<u>\$318,176</u>	<u>\$402,942</u>	<u>\$1,323,671</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
CAPITAL PROJECTS FUND
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Building & Site</u>	<u>Durant I</u>	<u>Durant II</u>	<u>Total After Interfund Eliminations</u>
<u>REVENUES</u>				
<u>Local Sources</u>				
Earnings on Investments and Deposits	\$10,724	\$10,022	\$8,677	\$29,423
Miscellaneous Revenue	930	0	22,901	23,831
Total Local Sources	<u>\$11,654</u>	<u>\$10,022</u>	<u>\$31,578</u>	<u>\$53,254</u>
<u>State Sources</u>	<u>0</u>	<u>159,249</u>	<u>0</u>	<u>159,249</u>
Total Revenues	<u>\$11,654</u>	<u>\$169,271</u>	<u>\$31,578</u>	<u>\$212,503</u>
<u>EXPENDITURES</u>				
Purchased Services	0	196,121	52,374	248,495
Miscellaneous Expenses	0	25,989	1,199	27,188
Total Expenditures	<u>\$0</u>	<u>\$222,110</u>	<u>\$53,573</u>	<u>\$275,683</u>
<u>EXCESS REVENUES OVER (UNDER)</u>				
<u>EXPENDITURES</u>	\$11,654	(\$52,839)	(\$21,995)	(\$63,180)
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>590,899</u>	<u>371,015</u>	<u>424,937</u>	<u>1,386,851</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$602,553</u>	<u>\$318,176</u>	<u>\$402,942</u>	<u>\$1,323,671</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Current Tax Levy	\$400,200
Earnings on Investments and Deposits	121,349
Other Local Revenues	154,927
Total Local Sources	<u>\$676,476</u>

State Sources

Math/Science	32,127
Section 81	899,829
Vocational Education	12,341
Great Parents	52,504
Other State Grants	13,592
Total State Sources	<u>\$1,010,393</u>

Federal Sources

IASA Title V	2,233
Vocational Education	216,329
Work Force Investment Act	208,000
Improving Teacher Quality	551
Homeland Security	43,177
Math Partnership	10,876
Total Federal Sources	<u>\$481,166</u>
Total Revenues	<u>\$2,168,035</u>

OTHER FINANCING SOURCES

Transfers from Other Funds	622,388
Transfers from Other Districts	426,061
Other Transfers	474,557
Total Other Financing Sources	<u>\$1,523,006</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES
\$3,691,041

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

<u>INSTRUCTION</u>	
<u>Vocational Education</u>	
Salaries - Professional	\$119,176
Salaries - Non-Professional	84,581
Insurances	35,836
Fica, Retirement, Etc.	48,343
Purchased Services	146,612
Supplies and Materials	40,697
Other	29,888
Total Vocational Education	<u>\$505,133</u>
<u>Adult Education</u>	
Salaries - Professional	94,710
Salaries - Non-Professional	56,414
Insurances	25,887
Fica, Retirement, Etc.	25,601
Purchased Services	42,858
Supplies and Materials	11,219
Other	20,456
Total Adult Education	<u>\$277,145</u>
<u>Total Instruction</u>	\$782,278
<u>SUPPORT SERVICES</u>	
<u>Student Services</u>	
Salaries - Professional	128,042
Salaries - Non-Professional	9,645
Insurances	25,116
Fica, Retirement, Etc.	21,907
Purchased Services	88,897
Supplies and Materials	48,944
Other	2,002
Total Student Services	<u>\$324,553</u>
<u>Instructional Staff</u>	
Salaries - Professional	173,695
Salaries - Non-Professional	399,859
Insurances	138,249
Fica, Retirement, Etc.	135,160
Purchased Services	236,470
Supplies and Materials	118,420
Capital Outlay	6,532
Other	238
Total Instructional Staff	<u>\$1,208,623</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)General Administration

Salaries - Professional	\$146,235
Salaries - Non-Professional	48,052
Insurances	18,832
Fica, Retirement, Etc.	41,829
Purchased Services	46,598
Supplies and Materials	8,408
Capital Outlay	15,733
Other	9,538
Total General Administration	<u>\$335,225</u>

Business Office

Salaries - Professional	156,318
Insurances	48,786
Fica, Retirement, Etc.	36,894
Purchased Services	9,396
Supplies and Materials	5,918
Other	903
Total Business Office	<u>\$258,215</u>

Operation and Maintenance

Salaries - Non-Professional	33,489
Insurances	16,179
Fica, Retirement, Etc.	7,884
Purchased Services	132,036
Supplies and Materials	4,216
Capital Outlay	2,390
Total Operation and Maintenance	<u>\$196,194</u>

Other Support Services

Salaries - Professional	39,957
Salaries - Non-Professional	242,453
Insurances	113,170
Fica, Retirement, Etc.	66,632
Purchased Services	99,103
Supplies and Materials	18,243
Other	68,768
Total Other Support Services	<u>\$648,326</u>

Total Support Services\$2,971,136TOTAL EXPENDITURES\$3,753,414

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Property Tax Levy	\$6,580,465
Earnings on Investments and Deposits	120,748
Transportation	32,675
Medicaid	803,302
Other Local Revenues	33,796
Total Revenues from Local Sources	<u>\$7,570,986</u>

State Sources

Special Education - Sec 51 a	1,954,974
Section 52	1,328,319
Section 56	1,480,907
Section 81	100,000
Other State Grants	94,539
Total Revenues from State Sources	<u>\$4,958,739</u>

Federal Sources

I.D.E.A. Flowthrough	2,599,867
Preschool	117,356
Title I	8,099
State Initiated	50,000
Transition Services	90,178
Even Start	225,000
Early On	115,631
Medicaid - Transportation & Outreach	120,491
Total Revenues from Federal Sources	<u>\$3,326,622</u>
Total Revenues	<u>\$15,856,347</u>

OTHER FINANCING SOURCES

Transfers from Other Districts	<u>593,358</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

\$16,449,705

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION

Salaries - Professional	\$1,353,995
Salaries - Non-Professional	772,027
Insurances	862,945
Fica, Retirement, Etc.	508,937
Purchased Services	300,339
Supplies and Materials	50,705
Capital Outlay	5,013
<u>Total Instruction</u>	<u>\$3,853,961</u>

SUPPORT SERVICESStudent Services

Salaries - Professional	3,661,898
Salaries - Non-Professional	138,461
Insurances	1,021,033
Fica, Retirement, Etc.	891,685
Purchased Services	222,359
Supplies and Materials	67,410
Capital Outlay	502
Total Student Services	<u>\$6,003,348</u>

Instructional Support

Salaries - Professional	424,464
Salaries - Non-Professional	187,897
Insurances	172,799
Fica, Retirement, Etc.	143,925
Purchased Services	179,678
Supplies and Materials	17,308
Other	6,281
Total Instructional Support	<u>\$1,132,352</u>

School Administration

Salaries - Professional	142,735
Salaries - Non-Professional	57,010
Insurances	28,012
Fica, Retirement, Etc.	45,813
Purchased Services	931
Supplies and Materials	6,707
Total Instructional Support	<u>\$281,208</u>

Business Office

Salaries - Non-Professional	6,722
Fica, Retirement, Etc.	3,819
Purchased Services	44,444
Supplies and Materials	11,673
Total Business Office	<u>\$66,658</u>

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SPECIAL EDUCATION FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)Operation and Maintenance

Salaries - Non-Professional	\$78,988
Insurances	32,358
Fica, Retirement, Etc.	23,330
Purchased Services	135,424
Supplies and Materials	9,407
Capital Outlay	5,742
Total Operation and Maintenance	<u>\$285,249</u>

Transportation

Salaries - Professional	41,862
Salaries - Non-Professional	511,087
Insurances	297,936
Fica, Retirement, Etc.	132,602
Purchased Services	59,569
Supplies and Materials	218,143
Capital Outlay	137,438
Total Transportation	<u>\$1,398,637</u>

Other Support Services

Salaries - Professional	65,660
Insurances	16,179
Fica, Retirement, Etc.	14,726
Purchased Services	33,316
Supplies and Materials	342
Capital Outlay	15,298
Total Other Support Services	<u>\$145,521</u>

Total Support Services

\$9,312,973

COMMUNITY SERVICES

Supplies and Materials	41
Other	59
Total Community Services	<u>\$100</u>

Total Expenditures

\$13,167,034

OTHER FINANCING USES

Transfers to Other Funds	622,388
Transfers to Other Districts	2,011,911
Total Other Financing Uses	<u>\$2,634,299</u>

TOTAL EXPENDITURES & OTHER FINANCING USES\$15,801,333

SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - OTHER GROUPS
FOR THE YEAR ENDED JUNE 30, 2006

	Due to (From) Other Groups July 1, 2005	Receipts	Disbursements	Due to (From) Other Groups June 30, 2006
AI Room - DC - Gallagher	\$110	\$0	\$0	\$110
AI Room - Elbing	378	1,183	1,237	324
Bentley - Gay	0	1,200	1,200	0
Community Foundation	0	1,500	722	778
DC Store	0	193	0	193
EI/Lincoln/Jones	11	165	50	126
EI Room - Bryant	30	0	0	30
EI Room - Central	99	27	0	126
EI Room - Central - Klinkoski	46	51	65	32
EI Room - OMS/Hartsell	377	51	0	428
Health & Fitness	0	200	0	200
Infant - Toddler	652	873	779	746
Jones Leisure Acct	945	450	863	532
Pajot Classroom	555	1,367	1,356	566
Pre-School/Dev. Center	1,008	44	268	784
Purcell	100	0	0	100
Pyles	1,750	5,556	5,806	1,500
SMI - Dev. Center	253	142	300	95
SRP Yearbook	0	296	0	296
SXI - Dev. Center	292	231	280	243
TMI - Bryant/Wittenberg	23	61	0	84
TMI - CHS/Williams	229	477	429	277
TMI - CMS/Sinn	716	928	889	755
TMI - HS/Kares	134	1,281	1,116	299
TMI - NR/Kott	1,191	26	800	417
<u>TOTAL</u>	<u>\$8,899</u>	<u>\$16,302</u>	<u>\$16,160</u>	<u>\$9,041</u>

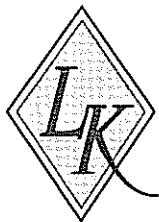
SHIAWASSEE REGIONAL EDUCATION SERVICE DISTRICT
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

1998 DURANT RESOLUTION PACKAGE BONDS

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$2,106,774

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2007	\$80,734	4.761353%	\$31,077	\$111,811
2008	84,598	4.761353%	27,233	111,831
2009	88,627	4.761353%	23,205	111,832
2010	92,843	4.761353%	18,985	111,828
2011	384,875	4.761353%	142,852	527,727
2012	101,891	4.761353%	9,934	111,825
2013	106,741	4.761353%	5,082	111,823
<u>TOTAL</u>	<u>\$940,309</u>		<u>\$258,368</u>	<u>\$1,198,677</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 8, 2006

To the Board of Education of
Shiawassee Regional Educational Service District

In planning and performing our audit of the financial statements of Shiawassee Regional Educational Service District for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Shiawassee Regional Educational Service District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Shiawassee Regional Educational Service District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

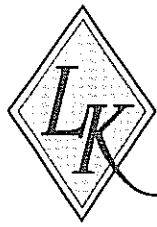
FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and



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FUTURE ISSUES (Continued)

- Adopting a budget that, when implemented, would put the district in a deficit.
- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Shiawassee Regional Educational Service District, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

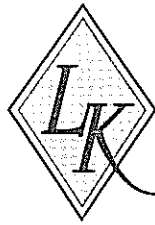
The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Shiawassee Regional Educational Service District's Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf P.C.

LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS